Islamic Republic of Afghanistan

Da Afghanistan Bank

Financial Supervision Department

Islamic Banking Division

Asset Classification and Provisioning Regulation

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Chapter One

General Provisions

Basis

Article 1:

This Regulation is designed pursuant to Article 70 and 177 of Banking Law, for the purpose of regulating the Asset Classification and Provisioning of Islamic Banks, Banks operating with an Islamic Window and Banks operating with an Islamic Subsidiary of the Conventional bank and to set out the minimum requirements on the classification of impaired financing and provisioning for financing impairment.

Aims and Objectives

Article 2:

The following are the aims and objectives of this Regulation:

(1) To collect reliable information on the total capital and assets of the bank, used for calculating economic normative regulating banking activities.

(2) For the purpose of calculating the amount of provision for different categories of asset classification by Islamic Banks, Banks operate with an Islamic Window and Banks operating with an Islamic subsidiary of the conventional bank.

(3) Banks are encouraged to form a general reserve for losses on standard investments/financings to their clients.

(4) Banks shall form a specific reserve for losses on watch, substandard doubtful, and loss assets.

(5) Reserve for losses must be formed in sufficient amounts, based on the classification process and other relevant information.

(6) Objective and subjective criteria for asset classification to be defined.

(7) Based on the results of supervision, DAB can require banks to adjust its assets classification as well as its reserve for losses in accordance with Chapter-2 of this Regulation.

Scope

Article 3:

This Regulation is applicable on all banks, Banks operating with an Islamic Window and Banks operating with an Islamic Subsidiary of the conventional bank licensed by Da Afghanistan Bank (central bank).

Definitions

Article 4:

Unless the context indicates otherwise, the following terms shall have the following Meaning:

(1) **Asset:** refers to credits extended to others from Banks perspective in the form of investment, financing, securities, contingent liabilities or other assets.

(2) **Bai-Jaizi:** is temporarily transferring of the ownership right of collateral to the financier through legal process until the settlement of the facility. The financier can only sell the collateral through due judicial process in case the client defaults.

(3) **Collateral:** is a property (movable/immovable) that a client offers as a way for a financier to secure the financings. If the client stops making the promised payments or installments, the financier can seize the collateral to recoup its losses.

(4) **Contingent Liability:** also referred to as off-balance sheet items means:

1. a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
2. a present obligation that arises from past events but is not recognized because:
    1. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    2. The amount of the obligation cannot be measured with sufficient reliability.
3. And includes letters of credit, letters of guarantee, advance payment guarantees and underwriting commitments.

(5) **Credit**: means any asset or off-balance sheet (contingent liability) item that contains credit risk. Including: placements and term deposits with other financial institutions, domestic or foreign.

(6) **Eligible collateral (Readily Marketable Collateral):** defined in this regulation as per Article 6, b, 29, paragraph 145 of International Convergence of Capital Measurement and Capital Standards – A Revised Framework, dated June 2006 and issued by the Basel Committee on Banking Supervision, is commonly referred to as Basel II.

(7) **Immovable Property:** means property that could not be moved without decomposition and change in shape and substance and include house, building, land and fixed assets.

(8) **Items subject to classification:** refers to claims on financial institutions, investment, financing, off-balance sheet items, securities, credit substitutes, placements and other assets.

(9) **Investments and financings rescheduling/restructuring:** a practice that involves rescheduling/restructuring the terms of an existing investments/financings that is classified as doubtful, in order to ease payment of investments/financings.

(10) **Medium Credit:** is a financing and investment that its amount is greater than AFN 5,000,000 and less then AFN 15,000,000 or equivalent in other currencies.

(11) **Micro Credit :** is a financing and investment which its amount is equal or less than AFN 500,000 or equivalent in other currencies;

(12)**Movable Property**: means property that could be moved without decomposition and any change in substance and form and include the tangible (goods) and the intangible such as documents of title, securities, receivables, copyrights, trademarks and patents.

(13)**Non-Performing Asset (NPA):** means an asset which is classified as doubtful and loss.

(14)**Other form of security**: means hypothecation of stock (Inventory), assignment of receivable, lease rentals, contract receivables.

(15) **Past Due (Overdue) Assets:** are financing or other assets that on which:

1. Principal or profit payments are due and unpaid 31 days or more; or
2. financing without pre-established repayment schedules are considered past due when any of the following conditions are met:
    1. The amount advanced exceeds the customer's approved borrowing line for more than 30 days;
    2. Profit is due and unpaid for 31 days or more, or
    3. The account has been inactive for more than 30 days.

(16)**Placement:**is placement of bank funds at another bank in the form ofIslamic demand deposit, interbank call money, time deposit, certificate of deposit, credit, and other similar fund placement.

(17)**Repossessed asset:** is the asset or collateral which the financier takes possession of it through legal process in case of client's default.

(18) **Reserve for losses:** a contra asset account that is intended to absorb estimated losses in the bank's portfolio of assets subject to classification, or a liability account that is intended to absorb estimated losses in off-balance sheet items subject to classification.(Reserve for losses means the same as provision for losses.)

(19) **Small Credit:** is an investments/ financings which its amount is greater than AFN 500,000 and less than AFN 5,000,000 or equivalent in other currencies;

(20) **Underwriting commitments:** mean commitments given by commercial banks/depository financial institutions to the limited companies at the time of the issuing of equity/debt instrument, that in case the proposed issue of equity/debt instrument is not fully subscribed, the un-subscribed portion will be taken up by them (commercial banks/depository financial institutions).

(21) **Well Secured:** A credit facility will be considered well secured (fully Secured) if the following characteristics are met:

1. All documentation is binding on all parties and is legally enforceable as Determined by sufficient legal review by the bank to verify this legal certainty.
2. The bank has the right to liquidate or take legal possession of the collateral in a timely manner in the event of default, insolvency or bankruptcy.
3. The bank has taken all necessary steps to perfect and maintain the bank's security interest in the collateral.
4. The "estimated recoverable amount" of the collateral exceeds the amount of the credit exposure including the costs of liquidation.

5. The collateral shall have market value equivalent to determined investment/financing to value (LTV) ratio or more of the principal amount of credit approved.

(22) **Credit Risk Management:** all Islamic Banks; Banks operate with an Islamic Window and Banks operating with an Islamic subsidiary of the conventional bank shall be required to maintain sound and acceptable policies and practices to prudently manage and control their credit portfolio and exposure to credit risks. The credit risk management should provide, at minimum, a credit policy and credit review process.

Chapter Two
Asset Classification

<u>Provisions for Asset Classification</u>

Article 5:

(1) On monthly basis, all banks must self-classify each of their investments/financings, securities, contingent liabilities or off-balance sheet items and other assets to provide reserve for losses within one of the five categories set forth below. These self-classifications must be documented, with justifications given for the classifications, in the bank's files, and the classification documents must be signed by the individual responsible for performing the classifications and the individual responsible for reviewing their accuracy. In making the decision to classify an asset within one of the five classification categories listed below, a bank shall use its informed judgment but must be guided by the standards and components set forth below with respect to each such category.

(2) Self-Classification of assets by banks shall be subject to review by DAB. Differences between classification decisions of DAB with respect to any asset and that of the classifying bank shall be subject to negotiation between them, but the classification decision of DAB shall be final for all purposes.

(3) Where any part of a credit risk exposure, whether principal or profit, goes in arrears or its credit quality deteriorates to such an extent that it requires to be classified into a category other than Standard, the total amount of the credit risk exposure must be reclassified to the worst classification of any part of the credit risk exposure, and not merely the proportions which is/are in arrears.

<u>General Provisions of Classification of Investment/financings, Securities, Contingent Liability and other assets</u>

Article 6:

(1) Banks shall classify their investments/financings, securities, contingent liability and other assets by its maturity term and qualitative perspective.

(2) In addition, banks should conduct thorough assessment of the client's capacity, character, capital, collateral and condition, and all necessary information on the client's credit worthiness before credit approval.

(3) To estimate qualitative performance of any assets, Banks shall receive client's financial statements on annual basis and shall perform due analysis and evaluation.

(4) For asset which is being investigated by legitimate detective authority because of it might be obtained through criminal offensive activities, provisioning shall be done for subjected asset. Amount of provision is subject to the discretion of bank's management.

Source of Provisions for Losses

Article 7:

(1) Islamic banks must revalue its receivables, financings and investment assetson monthly basis. However, if losses occurred relating to all above mentioned items, provision shall be made for such losses.

(2) Reserve for all five categories of asset classification will be allocated from banksprofit and capital.

(3) In case of actual loss, bank can cover losses by the liquidation of collateral of particular financing/investment. However, if the collateral could not indemnify the loss, then the remaining amount will be taken from Investment Risk Reserve (IRR) only if:

1. Bank was not negligible in the entire process of financing/investment.
2. In case there was banks' negligence evolved in advancing financing/investment then the remaining loss after liquidation of collateral will be paid from banks' profit/capital.
3. The IRR will be used only as stipulated above.

Client's financial Solvency or Client's disability to meet the payment Schedule

Article 8:

(1) For the reasons, client's financial solvency is being deteriorated or client is unable to meet the payment schedule (default occurs) according to initial contract/agreement, in this situation, the banks may take the following actions for initial conditions amended assets but after approval of the Shariah board of the bank:

1. lower profit rate;
2. Forgive or deduct accrued profit payment;
3. extend maturity date without increase in debt;
4. decrease the limit of financings,

Prohibition of change in Type of Credit

Article 9:

(1) Banks cannot change the type of Credit, unless the customer closes the current credit and request for a new one. Banks should process the new credit request of customer in normal manner.

(2) Banks cannot increase the financing limit of the existing customers without due diligence and proper analysis of the application.

(3) If any assets to client and its related body in banks or their assets in other banks are qualified as nonperforming assets, banks shall perform reclassification on the assets attributable to that particular client and its related body. When doing so,

reclassification should be only one class above the lowest class of the client's assets in particular bank and others.

(4) In case, banks jointly provide credit to one particular client, one of the banks will take the lead of the credit. It must be clearly defined in the contract/agreement.

Elimination of Potential Risk

Article 10:

(1) In eliminating potential risks, movable collateral shall be insured by a reputable Takaful/ insurance company and insurance document shall be filed in related investments/financings file.

(2) Ownership of all immovable collateral shall be transferred through Bai Jaizi(بیع جایزی), to the bank.

(3) Further requirements of both movable and immovable property shall be determined through DAB circular from time to time.

Facility Disbursement in the Client's or on the Supplier's Accounts by Bank

Article 11:

(1) Banks should disburse the facility in the client's current account or on the supplier's accounts (according to the type of products). All transactions and calculation of profit for the client should be recorded in that account only.

(2) Banks are required to set "write-off" policy on their bad/loss investments/financings and submit the updated list of investments/financings written off from balance sheet and report their recovery status to DAB on regular basis.

(3) A bank must accrue profit on profit-earning assets on a monthly basis if the frequency of actual payment by the obligor is less than monthly. Profit received on past due investments/financings shall be recognized as income.

(4) In case, a portion of a credit is insured by an organization/donor (domestic or foreign) through guarantee scheme acceptable to DAB, the client shall insure the non-secured portion by additional collateral.

Eligible Collateral Instruments

Article 12:

(1) The following collateral instruments are eligible for recognition as eligible collateral (readily marketable collateral):

1. Cash (as well as certificates of deposit or comparable instruments issued by Islamic bank) on deposit with the bank which is incurring the counterparty exposure.
2. Gold.
3. Debt securities not rated by a recognized external credit assessment institution where these are:
    1. Issued by bank.
    2. Listed on a recognized exchange.
    3. Classified as senior debt; and

4. All related issues of the same seniority by the issuing bank must be rated at least BBB- or A-3/p-3 by recognized external credit assessment institutions; and
5. The bank holding securities as collateral has no information to suggest that the issue justifies a rating bellow BBB- or A-3/P-3 (as applicable); and
6. The supervisor is sufficiently confident about the market liquidity of the security.
7. Equities (including convertible bonds) that are included in a main index.
8. Undertakings for collective investments in transferable securities and Islamic mutual funds where:

   1. A price for the units is publicly quoted daily; and

   2. The transferable securities and mutual fund is limited to investing in the instruments listed in this paragraph.

   3. Acceptable guarantee or counter guarantee issued by a highly regarded and reputable financial institution.

   4. Acceptable guarantee or counter guarantees of countries which will be provided by the circulars of Da Afghanistan Bank from time to time.

Chapter Three

Types of Investment/Financing Classification Categories

<u>Investment / financing Classification Category-1Standard</u>

Article 13:

(1) The provisions of the first type of investment/financing classification category as set forth below:

1- Standard:

An asset classified as Standard is paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor.

Standard assets are sufficiently secured with respect to the repayment of both the principal amount and profit.

<u>Investment/financing Category-2 Watch</u>

Article 14:

(1) The provisions of the second type of Investment/financing classification category as set forth below:

2- Watch:

An asset should be classified as Watch if the principal and/or the profit remain outstanding for 31-60 days.

(2) An asset classified as Watch is adequately protected, but is potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention.

(3) Assets must be classified no higher than Watch if any of the following are present:

1. The bank credit officer's inability to properly supervise them due to lack of Expertise;
2. The investment or financing was not made in compliance with the bank's internal policies;
3. Failure to maintain adequate and enforceable documentation; or poor control over collateral.
4. Assets that are past due 31-60 days for principal or profit payments.
   Under no circumstances should a Watch classification be utilized as a compromise between Standard and Substandard.

<u>Investment/financing Category-3 Substandard</u>

Article 15:

(1) An asset should be classified as Substandard if the principal and/or the profit remain outstanding for 61-120 days.

(2) Substandard investments/financing show clear manifestations of credit weaknesses that jeopardize the liquidation of the credit.

(3) Substandard investments/financings include investments/financings to clients whose cash flows are not sufficient to meet currently maturing debts, investments/financing to the customer which is significantly undercapitalized, and investments/financings to the customer with lacking sufficient working capital to meet their operating needs.

(4) Assets must be classified no higher than Substandard if any of the following deficiencies of the obligor are present:

1. Inadequate liquidity
2. Cash flow less than repayment of principal and profit
3. If the primary sources of repayment are insufficient to service the facility provided and the bank must look to secondary sources of repayment, including collateral.
4. If the bank has acquired the asset without the types of adequate documentation of the obligor's net worth, profitability, liquidity, and cash flow that are required in the banking organization's credit policy or there are doubts about the validity of that documentation.
5. If default occurs to "initial conditions amended asset" the asset should be classified at least in Sub-standard class.

<u>Investment/financing Category-4 Doubtful</u>

<u>Article 16:</u>

(1) Defaulted assets for which the principal and/or the profit remain outstanding for 121-480 days shall be classified Doubtful.

(2) Doubtful investments/financings display all the weakness inherent in credit classified as Substandard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information, highly questionable and improbable.

(3) The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is postponed until its more defined status is ascertained.

(4) Assets must be classified no higher than Doubtful if any of the following deficiencies of the obligor are present:
   1. Operational losses, including the necessity to sell assets to meet operating Expenses.
   2. Illiquidity
   3. Cash flow less than required profit payments.
   4. Doubts about true ownership.
   5. Complete absence of faith in financial statements;
   6. If the advance amount exceeds the customer's approved financing line for 121consecutive days or more.
   7. If the account has been inactive for 121 days.
   8. If the market value of collateral has dropped to an extent that its coverage ratio is below 60% of payment of principal and accrued profit, the relevant asset shall be classified into Doubtful classification regardless of its terms performance when client's solvency is being deteriorated or bankrupted.

Investment/financing Category-5 Loss

Article 17:

(1) Defaulted assets for which the principal and/or the profit remain outstanding for 481 or more days shall be classified as Loss.

(2) Investments/financings shall be classified as Loss when they are considered uncollectible and of such little value that their continuations as recoverable facilities are not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recover in future may not be entirely ruled out.

(3) Investments/financings classified as Loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgment debtors with no means or foreclosable collateral to settle the facility provided.

(4) Banks should retain such facilities on their books for the period of no more than 12 months, while pursuing future recoveries and 100 percent investments/financings loss provisioning should be made. After 12 months, they shall be written off immediately (via a credit to the asset balance on the balance sheet) against the investments/financings loss provisioning made.

(5) Assets must be classified no higher than Loss if any of the following deficiencies of the obligor are present:
   1. The obligor seeks new investments to finance operational losses.
   2. Location in an industry that is disappearing.
   3. is bankrupt or does not have physical existence.
   4. Location in the bottom quartile of its industry in terms of profitability.
   5. Technological obsolescence.
   6. Very high losses.
   7. Client resorts to sale assets at a loss to meet operational expenses.

8. Total revenue less than production costs.
9. No repayment source except liquidation.
10. Presence of money laundering, fraud, embezzlement, or other criminal activity.
11. Owners are not prepared to inject fresh capital.

(6) Asset classification criteria are summarized below:

Asset classification	Objective criteria	Reserve for loss required
Standard	A performing asset which is being repaid in accordance with the contract or at most past due for 1-30 days	1 percent (Optional)
Watch	31-60 days past due status (most favorable classification - Could be lower based on qualitative criteria).	At least 5 percent
Substandard	61-120 days past due status (most favorable classification - could be lower based on Qualitative criteria).	At least 25 percent
Doubtful	121-480 days past due status (most favorable classification - could be lower based on Qualitative criteria).	At least 50 percent
Loss	481 days or more past due status	(This category of investments/financings shall be retained in bank balance sheet for the period of 12 months for recovery purposes and 100 percent financing/investments loss provisioning Should be made. After the period, they shall be immediately written off with the provision made.

Table-1

Placement/deposits with other banks

Article 18:

Placements/deposits with other banks/financial institutions for fixed term to earn profit for period of 1 month or more, fall under credit definition and are subject to classification and provisioning. Banks must prepare clear policies on this purpose by which they could assess and manage related risks. Classification and provisioning of placements would be determined by DAB circular.

Classification of Micro and Small Credit

Article 19:

(1) The objective criteria for micro and small credits are as below:

Class	Past due	Provision
Standard	0-30 days	1 percent
Watch	31-60 days	5 percent
Sub standard	61-90 days	25 percent
Doubtful	91- 180 days	50 percent
Loss	181 - or above	100 percent

Table 2

(2) Banks shall consider subjective criteria as elaborated in this regulation while classifying micro and small credits. Collateral requirements of these investments/financings would be determined by relevant circular.

Suspension of profit on Nonperforming Assets

Article 20:

(1) The following conditions shall apply to accrual and suspension of profit on all investments/financings classified as Doubtful or Loss, thus constituting them as NPA:

1. All categories of non-performing investments/financings classified as Doubtful and Loss shall be placed on non-accrual status and the profit shall not be taken as income when earned. However, claims on these credits can be recorded separately for future recoveries and legal purposes.
2. The previously accrued and uncollected profit on such assets but taken as income shall be reversed by debiting the income statement and crediting a “profit-In-Suspense” account. Subsequent accrual of profit shall be credited to the profit in suspense account until such investments/financings are brought current by full settlement of the delinquent principal and profit.
3. Profit can only be taken out of suspense when it has actually been paid by the debtor. However, the funds for the repayment of the delinquent investments/financings shall not be obtained through new investments/financings from the same financial institutions.
4. Payments made for repayment of the investment/financing should be applied first to penal and other charges, profit and then the principal.

Provisions for investments/financings Losses

Article 21:

(1) The provisions to be made against the investments and financings depend on the classification of each asset. Minimum provisions shall be made as follows:

1. Banks may establish reserves in amounts higher than the minimums required, if the facts warrant. The classification of assets and the concomitant determination of the sufficiency of the reserve must be reviewed not less than monthly.
2. All adjustments to classifications and the reserve for losses, and all accrued provisions and reintegrated provisions necessary to make these adjustments to the reserve, must be made in the same reporting period. In no case shall a bank adjust its classifications during one month and make the necessary provisions in a subsequent period.
3. The amount of the reserve must be based on facts and circumstances as of the evaluation date, and after charge-off of all assets or portions of assets classified Loss.
4. Banks must continue to make reasonable efforts to collect on assets that are charged off. The act of charging off does not eliminate the obligor's contractual responsibility to fully repay the principal balance and accrued but unpaid profit on the asset.
5. Any new investment/financing to a given client must be initially classified under the same category as the most adversely-classified previous outstanding investment/financing to the same client.
6. Banks may move an asset that is not classified below Sub-Standard to a more favorable classification category, and reintegrate the provision and reduce the reserve for losses, only if the bank can satisfactorily demonstrate that the asset's quality has improved significantly, and an explicit, written decision of the bank's credit committee outlining the justifications for the more favorable classification is placed in the asset's file.

Repossessed Assets

Article 22:

(1) Banks can repossess assets as per Article 67.2 of Banking Law with prior authorization of DAB. They shall repossess collaterals of their clients that are classified nonperforming assets as below:

1. To foreclose the collateral, banks shall sell the property through court process. If they fail to find the competent buyer, banks can repossess the property following legal processes.
2. The property repossessed by bank, shall be recorded in the books of the bank at the date the title deed is transferred to the bank.
3. Banks shall transfer the determined value (final Mahzar value) of collateral from investment/financing account to repossessed account on the balance sheet.
4. Repossessed assets are neither held for business purposes nor for bank usage and are only kept for the purpose of reselling and banks shall have unrestricted physical possession of property.

5. Property selling timeline shall not exceed four (4) years and major portion of repossessed assets shall be sold out in first two years. In case, banks fail to sell the property within the given timeline, the property shall be written off from the balance sheet.
6. Banks supervisory board shall collect reliable information on the quality of these assets and monitor them periodically.
7. The reserved provisions for repossessed assets shall be recorded under deferred income on the liability side until the actual realization through sale of property occurs.
8. Banks' risk management (committee) should identify, assess, monitor and analyze the risks associated with repossessing assets for the sake of settlement of investments/financings a already classified as doubtful and loss and inform supervisory and management boards.
9. Banks are required to have written policies on repossessing assets associated with IFRS 5 'Non-Current Assets held for sale and discounted operations.

Rescheduled and Restructured Credit
Article 23:

(1) Banks must have in place written policies which define the circumstances and conditions under which a credit may be rescheduled or restructured. The policies should address the controls to avoid "ever-greening" of credit, including situations where credit may be rescheduled or restructured more than once, and provisioning policies with respect to such credit. In addition:

1. Banks must reassess the customer's financial position, having regard to all relevant circumstances surrounding the customer's financial condition and prospects for repayment, before a credit can be rescheduled or restructured. In addition, adequate resources must be allocated to closely monitor and follow up on the performance of rescheduled and restructured credit.
2. Banks shall appropriately classify the rescheduled and restructured facilities based on the assessment of the financial condition of the customer and the ability of the customer to repay based on the restructured terms. Credit that have been rescheduled and restructured shall not lead to improved classification immediately upon perfection of the relevant documentation in relation to the rescheduling and restructuring exercise.
3. Da Afghanistan Bank acknowledges that in specific and exceptional circumstances, such as when customers are affected by natural disasters, rescheduling and restructuring exercises may involve the granting of moratorium on credit repayments.
4. As part of sound credit management practices, banks are expected to establish clear parameters and internal processes for the consideration of moratorium on credit repayments, including proper authority for the approval of the moratorium. These processes should also be subject to adequate monitoring and review by an independent function.

5. Senior management or Credit Committee should receive periodic reports on the performance of rescheduled and restructured credit facilities. The reports should provide adequate information, including default status and the frequency of rescheduling or restructuring for the same customer, to facilitate management's or the committee's oversight of compliance with the bank's internal policies on rescheduling and restructuring and assessment of risks associated with the credit portfolio. Any material impact on the risk profile of the bank should be raised to the Board of Supervisor's attention in a timely manner.
6. Investments and financings cannot be restructured or/and rescheduled more than once. Restructured/rescheduled investments/financings shall not be upgraded into a better classification category unless the client:
   1. In case of investments/financings by repayments of lump sum amount at the end of the contract, has satisfactorily performed for a minimum of two consecutive months; or
   2. In case of investments/financings with monthly repayments, have timely paid two consecutive instalments.
7. Once investments/financings are classified as Doubtful, they shall be reclassified or upgraded merely on the ground of rescheduling or roll-over of payment of profit and principal. The investments/financings shall only be renewed, rolled over or returned to accrual status if the client repays all the delinquent profit or/and principle from his own funds prior to the rollover or renewal.
8. If a client subsequently defaults after the rescheduled/restructured investments/financings that has been upgraded to a better category by the bank; the investments/financings shall be declassified in the same category as it was at the time of rescheduling /restructuring. However, banks at their discretion may further downgrade the classification taking into account the subjective criteria. The unrealized profit on such investments/financings taken to income account shall be reversed.
9. According to the types and nature of the Islamic banking products, bank must have proper policy for rescheduling and restructuring of the Islamic banking investment/ financings.

Reporting Requirements
Article 24:

Banks shall submit to Da Afghanistan Bank on monthly basis the following statements, but not limited to:

1. Classification of investments/ financings and provisioning and movement in provisions and profit in suspense.
2. List of recovery and charged-off investments and financing.
3. List of adversely classified assets (an asset that has been classified as Substandard, Doubtful or Loss).
4. Classification of off-balance items.
5. Classification of investments and other assets.
6. And any other information required by DAB.

Classification of Off-balance Sheet Items
Article 25:

(1) Banks are required to review their off-balance sheet items monthly, classify them with adequate provisioning.
(2) Banks are obliged to have written policies for classification of Off Balance sheet commitments containing criteria for each category of classification on their own judgment.
(3) The factors analyzed in evaluating financings and investments (financial performance, ability and willingness to pay, collateral protection, and future prospects) are applicable to the review of off-balance sheet items. When evaluating off-balance sheet credit transactions for determining a credit-quality rating, consideration must be first given to whether the bank is irrevocably committed to advance additional funds under the credit arrangement.
(4) The appropriate classification must be determined and applied if the bank should continue to fund the commitment and:
   1. A potential weakness exists that, if left uncorrected, may at some future date result in The deterioration of repayment prospects or the bank's credit position, or
   2. There is a well-defined weakness that jeopardizes repayment of a commitment.
(5) The reserve for losses on off-balance sheet items, which is reported as an "other liability "rather than as a contra-asset, must adequately reflect the associated risks. While classification, off-balance sheet items with 100 % cash margin are not subject to provisioning. Where the off-balance sheet items are partially secured by cash margin, banks shall only allocate provision for the unsecured portion.
(6) Banks should issue a written notice of expiry of off-balance sheet commitments to its beneficiary, containing that bank does not have any responsibility after expiry of the commitment and a copy of such notice shall be filed subsequently.
(7) After expiry of off-balance sheet items and if terms and conditions of commitments (LG and/or LC) are not met, banks do not have further obligation and the off-balance sheet items shall be immediately written off from off-balance sheet of the banks.

Classification of Investments and Other Assets
Article 26:

(1) Banks are required to classify their investments and other assets monthly.
(2) They shall have written policies on classification and provisioning of investments and other assets containing criteria for each category of classification on their own judgment.

Monitoring of Adversely-Classified, past due, Non-performing Assets and Charged-off investments and financings
Article 27:

Banks must strictly monitor and keep accurate records of their adversely classified, past due, nonperforming assets and charged-off investments and financings, in the aggregate and by type of asset, and submit to their Board of Supervisors (or, for a permitted branch of a foreign bank, to the next-higher level of authority outside of Afghanistan) for each of their regularly scheduled meetings, and anytime upon their request, detailed information and analysis concerning these trends.

Enforcement of Additional Requirements through Circulars
Article 28:
In order to properly enforce this regulation, if needed DAB will provide specific interpretations and impose additional requirements through circulars.

Effective date of Regulation
Article 29:
This regulation is effective immediately upon approval by the Supreme Council of Da Afghanistan Bank.